

B U S I N E S S S I T U A T I O N

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ECONOMIC GROWTH slowed in the third quarter of 1996, according to the "advance" estimates of the national income and product accounts (NIPA's), as real gross domestic product (GDP) increased 2.2 percent after increasing 4.7 percent in the second quarter ([chart 1](#) and [table 1](#)).¹ Real gross domestic purchases—GDP less exports plus imports—increased 3.1 percent after increasing 5.2 percent, and the price index for gross domestic purchases increased 1.8 percent after increasing 2.1 percent.

Nearly nine-tenths of the third-quarter increase in real GDP was accounted for by inventory investment (that is, change in business inventories). Final sales of domestic product increased only

0.3 percent after increasing 4.1 percent; producers' durable equipment more than accounted for the increase in final sales.

The deceleration in GDP growth from the second quarter to the third was attributable to personal consumption expenditures (PCE), government spending, residential fixed investment, and exports. PCE increased only 0.4 percent after increasing 3.4 percent; the much smaller third-quarter increase reflected downturns in both durable goods and nondurable goods and a deceleration in services. Government spending decreased 1.4 percent after increasing 7.7 percent; the downturn reflected a downturn in Federal

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarter-to-quarter dollar changes are differences between these estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

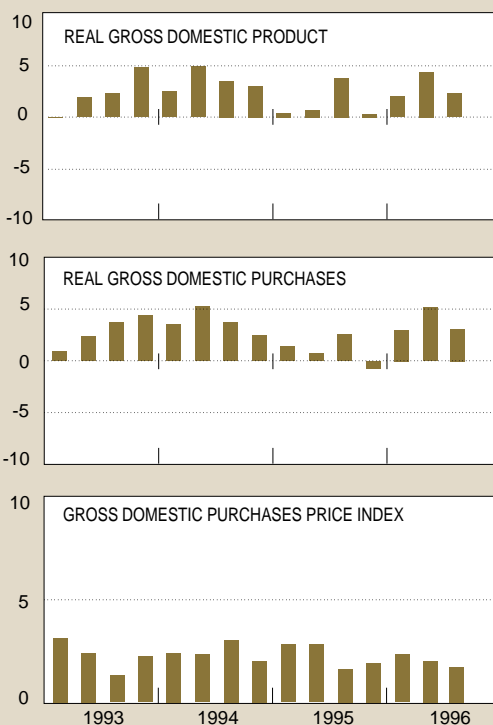
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
						1995		1996	
	1996	1995	1996						
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	6,929.7	4.3	33.6	78.3	37.1	0.3	2.0	4.7	2.2
Less: Exports of goods and services	819.1	20.1	3.6	11.2	1.2	10.7	1.8	5.6	.6
Plus: Imports of goods and services	951.3	3.5	22.7	21.9	18.7	1.6	10.6	9.9	8.3
Equals: Gross domestic purchases	7,056.9	-11.9	51.7	88.4	53.9	-7	3.0	5.2	3.1
Less: Change in business inventories	39.6	-18.4	-17.6	10.1	32.5	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,016.8	6.7	69.1	79.7	21.6	.4	4.1	4.7	1.2
Personal consumption expenditures	4,692.8	12.1	39.7	38.5	5.2	1.1	3.5	3.4	.4
Durable goods	614.4	-1.6	11.7	16.4	-1.2	-1.0	8.2	11.4	-8
Nondurable goods	1439.6	-1.5	12.9	4.8	-1.3	-4	3.7	1.3	-3
Services	2639.7	14.7	15.4	17.6	7.4	2.3	2.4	2.7	1.1
Private nonresidential fixed investment	776.6	4.3	20.2	7.0	26.1	2.5	11.6	3.8	14.7
Structures	186.4	.4	3.4	-1.7	1.5	1.0	7.7	-3.7	3.3
Producers' durable equipment	592.6	4.0	16.9	9.2	25.1	3.0	13.1	6.7	18.9
Private residential investment	277.4	4.1	4.8	10.4	-4.1	6.4	7.4	16.3	-5.8
Government consumption expenditures and gross investment	1,273.7	-13.8	5.1	23.5	-4.5	-4.3	1.6	7.7	-1.4
Federal	468.7	-16.3	6.7	10.5	-4.7	-13.2	6.0	9.4	-4.0
State and local	805.9	2.9	-1.8	12.9	.4	1.5	-9	6.7	.2
Addendum: Final sales of domestic product	6,889.6	22.8	51.0	69.5	4.9	1.4	3.0	4.1	.3

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are found in table 8.1.

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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Government spending and a deceleration in State and local government spending. Residential fixed investment decreased 5.8 percent after increasing 16.3 percent, and exports increased 0.6 percent after increasing 5.6 percent. In contrast, inventory investment and nonresidential fixed investment increased more in the third quarter than in the second, and imports increased less than in the second quarter.

Motor vehicles.—A major contributor to the third-quarter deceleration in real GDP was motor vehicle

output. Real motor vehicle output decreased 13.4 percent in the third quarter after increasing 49.6 percent in the second; both auto and truck output contributed to the downturn (table 2).²

Motor vehicle inventory investment decreased in the third quarter. The decrease was accounted for by a slowdown in the accumulation of truck inventories; the accumulation of car inventories stepped up in the third quarter. For new domestic autos, the inventory-sales ratio calculated from units data

2. A perspective on motor vehicles is provided in "Motor Vehicles, Model Year 1996" in this issue.

Third-Quarter 1996 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the third quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing and trade inventories (2);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (3), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (3), price indexes for nonpetroleum merchandise exports and imports (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1996:III

[Billions of dollars, seasonally adjusted at annual rates]

	1996					
	April	May	June	July	August	September ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	135.5	130.9	137.7	135.5	139.5	138.5
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	18.3	25.3	15.3	15.8	23.7	26.4
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	156.8	157.0	156.8	156.9	157.1	156.8
2-or-more-unit structures	22.5	21.2	20.9	17.9	18.5	20.7
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	50.7	-23.0	-9.6	39.1	38.4	25.2
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	608.9	616.6	611.7	585.3	607.9	611.2
Excluding nonmonetary gold	593.5	604.9	601.3	580.6	601.5	607.5
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	795.9	818.1	787.1	795.3	811.8	800.8
Excluding nonmonetary gold	777.1	803.0	777.2	789.8	802.2	797.5
Net exports of goods (exports less imports)	-187.0	-201.5	-175.4	-210.0	-203.9	-189.6
Excluding nonmonetary gold	-183.6	-198.1	-175.9	-209.2	-200.7	-190.0
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	125.7	125.4	125.0	124.6	125.1	124.3

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports. Thus, this table shows balance-of-payments-basis exports and imports excluding nonmonetary gold.

increased to 2.2 at the end of the third quarter from 2.0 at the end of the second; the ratio remained below the traditional industry target of about 2.4.

Final sales of motor vehicles to domestic purchasers decreased 4.6 percent in the third quarter after decreasing 0.3 percent in the second. Auto sales decreased after increasing; truck sales decreased less in the third quarter than in the second.

Motor vehicle sales to consumers decreased after increasing; sales of both autos and trucks decreased. The decrease in motor vehicle sales to consumers is somewhat surprising in light of the strength in factors frequently considered in analyses of overall consumer spending: Real disposable personal income jumped 4.9 percent after increasing 1.3 percent, the unemployment rate decreased to 5.2 percent from 5.4 percent, and the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased to 94.9 percent from 91.5 percent. Part of the explanation of the decrease in sales to consumers was that the share of consumers who chose to lease vehicles rather than to buy them increased in the third quarter; as a result, the share of vehicle sales to consumers decreased, and the share of sales to businesses increased.³ In addition, factors specific to motor vehicle purchases were more in line with the decrease in sales to consumers: Some popular

light-truck models were in short supply, and interest rates on new-car loans increased; for example, the rate on 48-month new-car loans at commercial banks increased to 9.11 percent in the third quarter from 8.93 percent in the second.

Motor vehicle sales to businesses increased sharply in the third quarter; both auto and truck sales contributed. The increase in sales to businesses reflected the pickup in new-vehicle leasing. Sales to government decreased for the second consecutive quarter; trucks accounted for the third-quarter decrease.

Both imports and exports of motor vehicles increased in the third quarter. Autos accounted for most of the increase in imports and more than accounted for the increase in exports.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 1.8 percent in the third quarter after increasing 2.1 percent in the second (chart 2 and table 3). Prices of gross domestic purchases less food and energy, which may be a better gauge of the trends in the inflation rate, increased 1.9 percent after increasing 1.2 percent. The smaller increase in the second quarter was primarily traceable to the prices of compensation of government employees. These prices decreased, reflecting the return to normal prices after large increases in the first quarter that were associated with government

Table 2.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1996	1995	1996			1995	1996		
	III	IV	I	II	III	IV	I	II	III
Output	229.8	1.5	-18.2	22.8	-8.4	2.6	-27.6	49.6	-13.4
Autos	116.2	-3.9	-16.9	19.5	-3.4	-12.1	-46.4	103.6	-10.8
Trucks	113.4	5.4	-1.2	3.3	-5.1	20.7	-4.2	12.1	-16.0
Less: Exports	24.1	-8	1.0	-8	.6	-12.1	19.0	-13.0	10.7
Autos	15.9	-8	.6	-1.5	1.1	-18.8	15.6	-32.2	31.1
Trucks	8.2	.1	.5	.7	-5	4.3	26.3	39.2	-18.7
Plus: Imports	78.3	-1.9	4.1	3.4	4.6	-10.9	27.6	21.1	27.1
Autos	65.0	-1.8	4.3	1.9	4.2	-12.2	35.7	13.4	30.8
Trucks	13.2	-2	-1	1.5	.3	-4.6	-6.3	67.3	10.4
Equals: Gross domestic purchases	283.9	.3	-15.0	26.9	-4.5	.4	-20.0	48.0	-6.1
Autos	165.3	-4.8	-13.2	22.8	-2	-11.5	-29.7	80.6	-4
Trucks	118.5	5.1	-1.8	4.2	-4.4	9.1	-6.0	15.0	-13.3
Less: Change in business inventories	4.5	6.8	-18.9	27.1	-1.3	.....	.....	.....	.....
Autos	3.5	7.3	-14.0	18.2	2.1	.....	.....	.....	.....
Trucks	1.1	-5	-4.9	8.8	-3.2	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	279.4	-6.4	4.0	-2	-3.3	-8.8	5.9	-3	-4.6
Autos	161.8	-12.1	.9	4.5	-2.3	-25.6	2.4	11.6	-5.4
Trucks	117.5	5.7	3.0	-4.6	-1.0	21.3	10.6	-14.2	-3.4

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the correspond-

ing chained-dollar estimates usually are not additive. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

shutdowns due to a blizzard and the impasse in budget negotiations (these shutdowns increased prices because they reduced government employee services without an accompanying reduction in current-dollar compensation).

Prices of personal consumption expenditures (PCE) increased 1.6 percent after increasing 3.2 percent. Energy prices decreased 7.7 percent after increasing 18.8 percent; large downturns in the prices of gasoline and oil and of fuel oil and coal more than offset a slight acceleration in the price of electricity. Food

prices increased 4.9 percent after increasing 3.7 percent: Prices of beef and veal turned up; prices of processed dairy products, fresh milk and cream, pork, and poultry accelerated; and prices of fresh fruit, processed fruit, and fish and seafood slowed. "Other" PCE prices increased 1.6 percent after increasing 2.2 percent; a slowdown in the prices of transportation and of medical care more than offset a step-up in the prices of durable goods.

Prices of nonresidential fixed investment increased 1.5 percent after increasing 0.1 percent. Prices of structures increased 3.1 percent after increasing 2.0 percent; prices of all major categories accelerated. Prices of producers' durable equipment increased 0.9 percent after decreasing 0.6 percent; prices of industrial equipment and of transportation and related equipment increased more than in the second quarter, and prices of information processing and related equipment decreased less than in the second quarter. Prices of residential investment increased 2.8 percent after increasing 1.3 percent.

Prices of government consumption expenditures and gross investment increased 2.4 percent after decreasing 0.3 percent. Prices paid by the Federal Government increased 0.5 percent after decreasing 0.7 percent; an upturn in nondefense prices more than offset a slowing in national defense prices. Prices paid by State and local governments increased 3.7 percent after no change.

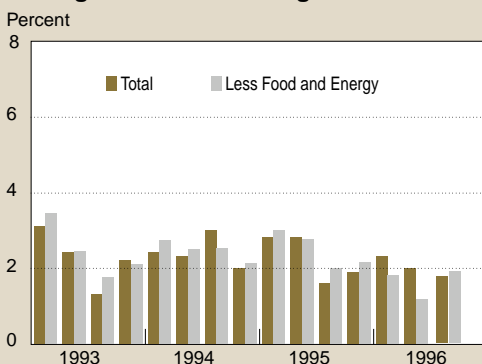
The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.9 percent after increasing 2.2 percent. The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 1.7 percent after increasing 1.4 percent; prices of foods, feeds, and beverages turned down, and prices of consumer goods except automotive slowed. Import prices decreased 2.0 percent after increasing 0.7 percent; prices of foods, feeds, and beverages turned down, and prices of petroleum and products slowed substantially.

Personal income

Real disposable personal income (DPI) increased 4.9 percent in the third quarter after increasing 1.3 percent in the second (chart 3). Current-dollar DPI increased 6.5 percent after increasing 4.3 percent. The personal saving rate (saving as a percentage of current-dollar DPI) jumped to 5.4 percent from 4.3 percent, primarily reflecting a sharp slowdown in outlays.

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

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Table 3.—Price Indexes

(Percent change at annual rates; based on seasonally adjusted index numbers (1992=100))

	1995	1996			
	IV	I	II	III	
Gross domestic product	2.1	2.3	2.2	1.9	
Less: Exports of goods and services	-1.0	.2	1.4	-1.7	
Plus: Imports of goods and services	-2.3	.1	.7	-2.0	
Equals: Gross domestic purchases	1.9	2.3	2.1	1.8	
Less: Change in business inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	1.9	2.3	2.1	1.8	
Personal consumption expenditures	1.6	2.4	3.2	1.6	
Food	2.5	2.4	3.7	4.9	
Energy	-4.9	12.9	18.8	-7.7	
Other personal consumption expenditures	1.9	1.7	2.2	1.6	
Private nonresidential fixed investment	-3	-2	.1	1.5	
Structures	1.8	1.2	2.0	3.1	
Producers' durable equipment	-1.0	-7	-6	.9	
Private residential investment	2.2	0	1.3	2.8	
Government consumption expenditures and gross investment:	4.2	4.1	-3	2.4	
Federal	7.4	2.0	-7	.5	
National defense	3.2	3.0	1.7	.1	
Nondefense	16.2	.1	-5.4	1.2	
State and local	2.3	5.4	0	3.7	

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

Personal income increased \$90.5 billion in the third quarter after increasing \$103.9 billion in the second (table 4). The difference between the changes in personal income and those in DPI reflected personal tax and nontax payments, which increased \$2.7 billion after increasing \$45.7 billion; the large second-quarter increase reflected earlier changes in the Federal income tax law.

Wage and salary disbursements increased \$59.3 billion after increasing \$68.3 billion. The slowdown was more than accounted for by manufacturing; however, service industries also increased less in the third quarter than in the second. Distributive industries and government increased more in the third quarter than in the second. In manufacturing, the third-quarter slowdown reflected a larger decrease in employment than in the second quarter, no change in average weekly hours

after an increase, and slower growth in average hourly earnings.

Proprietors' income increased \$6.7 billion after increasing \$15.7 billion. Farm proprietors' income increased \$2.5 billion after increasing \$7.4 billion; the slowdown reflected lower crop prices and slowdowns in the production of both crops and livestock. Nonfarm proprietors' income increased \$4.1 billion after increasing \$8.3 billion; the slowdown primarily reflected declines in residential construction.

Transfer payments to persons increased \$10.3 billion after increasing \$12.6 billion. The second-quarter increase had been boosted by cost-of-living adjustments (effective April 1) in Fed-

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	1996	1995		1996		
		III	IV	I	II	III
Wage and salary disbursements	3,665.8	49.0	38.0	68.3	59.3	
Private industries	3,020.8	46.2	30.9	63.3	53.3	
Commodity-producing industries	911.4	7.2	4.8	21.6	11.1	
Manufacturing	678.6	4.6	.1	17.0	6.8	
Distributive industries	835.9	11.4	9.8	11.8	13.6	
Service industries	1,273.5	27.5	16.5	29.8	28.6	
Government	645.0	2.8	7.1	4.9	6.1	
Other labor income	438.6	4.3	-1.1	4.9	4.6	
Proprietors' income with IVA and CCAAdj	521.9	7.1	12.8	15.7	6.7	
Farm	48.3	3.7	6.6	7.4	2.5	
Nonfarm	473.5	3.4	6.2	8.3	4.1	
Rental income of persons with CCAAdj	127.0	4.9	1.1	-2.4	2.5	
Personal dividend income	231.5	5.9	4.9	2.7	2.2	
Personal interest income	742.4	7.3	-1.1	7.0	9.3	
Transfer payments to persons	1,085.9	11.5	21.6	12.6	10.3	
Less: Personal contributions for social insurance	310.2	2.6	2.2	4.8	4.4	
Personal income	6,502.9	87.6	74.0	103.9	90.5	
Less: Personal tax and nontax payments	873.3	8.8	17.7	45.7	2.7	
Equals: Disposable personal income	5,629.6	78.8	56.2	58.3	87.8	
Less: Personal outlays	5,327.6	38.1	73.4	82.6	26.9	
Equals: Personal saving	302.0	40.7	-17.2	-24.3	60.9	
Addenda: Special factors in personal income:						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts"		-1	3.3	.2		
Strike in motor vehicle industry			-2.9	2.9		
In other labor income:						
Employer pension contributions			-6.0			
In farm proprietors' income:						
Subsidies		-4	.2	.2	.2	
In rental income of persons with CCAAdj:						
Due to Hurricane Opal		-1.6	1.6			
In transfer payments to persons:						
Social security retroactive payments		1.0	-1.2			
Cost-of-living adjustments in Federal transfer programs			9.7	1.7		
Earned Income Tax Credit payments			2.9			
In personal tax and nontax payments:						
Recent tax law changes		-1	-5.3	16.4	-16.6	

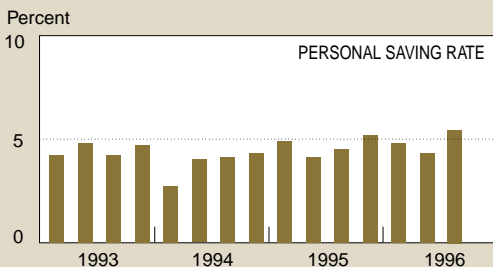
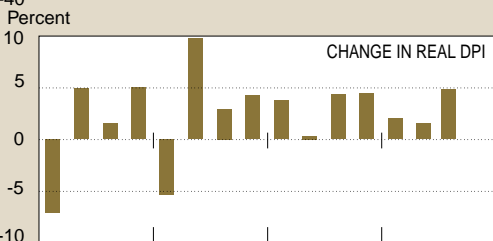
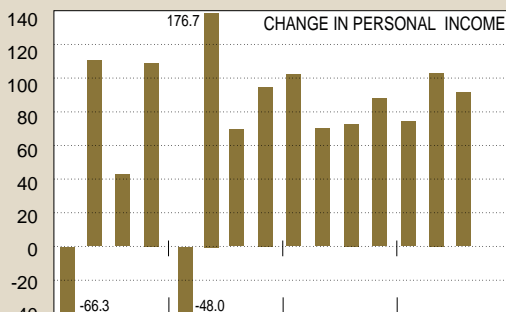
NOTE.—Most dollar levels are found in NIPA table 2.1.

IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

CHART 3

Selected Personal Income and Saving Measures

Billions \$



Note.—Changes are from preceding quarter, based on seasonally adjusted annual rates.

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eral Government civilian and military retirement benefits.

Personal dividend income increased \$2.2 billion, slightly less than in the second quarter. “Other labor income” increased \$4.6 billion, about the same as in the second quarter. Personal interest income increased \$9.3 billion after increasing \$7.0 billion. Rental income of persons increased \$2.5 billion af-

ter decreasing \$2.4 billion. The upturn was due to a slowdown in residential housing expenses; in expenses, closing costs and brokerage commissions slowed, reflecting slowdowns in both the number and the value of new home sales.

Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$4.4 billion, slightly less than in the second quarter. 